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TAGS: ECON ASEC MARR PGOV EAIR PREL ETRD KHLS PTER

EWWT, SNAR, ATRN, VE

SUBJECT: VENEZUELAN PORTS IN CHAOS, DRUG TRAFFICKERS IN
PARTIAL CONTROL

REF: A. CARACAS 1545
 B. CARACAS 1590

Classified By: Economic Counselor Darnall Steuart for reasons 1.4
(b) and (d).

¶1. (C) Summary: Industry sources report that Venezuelan ports are in a "state of chaos" with long lines of ships waiting to dock, and numerous instances of ships diverted to other countries to unload cargo after failing to dock in Venezuela.

Port authorities have reportedly advised shipping companies that they will close at least one major port, most likely after the November 23 elections, until the current situation is resolved. The Venezuelan government has made no major infrastructure investment in ports for 40 years, and the private sector is not investing either due to nationalization concerns. One source noted that Venezuelan ports are "explosive cocktails of corruption and ignorance." The Makled family, Venezuela's most powerful drug traffickers, are cited frequently in port discussions due to their involvement in shipping, warehousing and control over a large portion of Puerto Cabello, the most important Venezuelan port in terms of imports. End Summary.

CANCEL CHRISTMAS - PORT INFRASTRUCTURE CRUMBLING

¶2. (C) A representative from shipping company Maersk told the Embassy's Customs and Shipping Supervisor on November 18 that due to congestion and the huge backlog at La Guaira, the port closest to Caracas, port authorities advised him that they plan to "close the port until this situation is resolved." The authorities estimate it may be January before they are able to reopen. The officials will likely wait until after November 23 in order to avoid damaging press prior to state and local elections. It was not clear from the Maersk report whether or not additional ports will be closed.

¶3. (C) On November 12, Emboffs met with Bernardo Oronoz (protect), the Executive Director of international transport logistics firm Expotran who reported that on average, boats wait two to three days to dock at a Venezuelan port. Each day of delay costs an average of USD 30,000, and an additional USD 180,000 if the delay causes the vessel to miss its turn to transit the Panama Canal. An Expotran report, which Oronoz asked us to keep confidential as the "government is particularly vindictive when you tell the truth", indicates that many companies consequently have a Venezuela Surcharge of up to USD 600 per container in addition to a

clause in their contracts that allows them to drop their cargo in alternate countries and sail on, leaving their clients to sort out how to get their cargo to Venezuela. One chamber, Fedecamaras, told the press that the price of merchandise at one port has gone up 40 percent due to port delays. (NOTE: The Embassy had four containers full of HHE and other cargo stranded in Aruba that have slowly begun to trickle into Venezuelan ports. All the Embassy's classified shipments have been halted rather than risk "contamination" if diverted. END NOTE.)

¶4. (C) Econoffs attended a Venezuelan Chamber of American Commerce and Industry (VenAmCham) Trade Committee meeting dedicated to the port crisis on November 12. An executive from Expotran said the "ports are in a state of anarchy." All participants agreed that port infrastructure is crumbling due to decades of neglect. The only new investment in port infrastructure the government is contemplating is an expansion project with a Portuguese partner at a port near Caracas that will take over six years to complete. Venezuelan imports have increased from USD 13 billion in 2004 to a projected USD 50 billion for 2008, yet Venezuela has not opened a new port in over 100 years, nor invested in new infrastructure for 40 years. Private companies are refusing to invest in desperately needed heavy machinery as they fear the government will expropriate anything they purchase.

¶5. (C) A further example of infrastructure deterioration is the important petroleum port in Lake Maracaibo that closes at 3:00PM each day. Ships cannot navigate when night falls as the government-owned buoys that mark the shipping lanes have not been maintained and in some cases have been stolen and never replaced. Puerto Ordaz on the Orinoco River in Bolivar

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State does not allow ships to enter after 4:00PM due to a similar problem with poorly maintained or stolen buoys and ships often have to wait until the following day to navigate the river.

¶6. (C) One logistics company reported Venezuelan port authorities frequently order ships to depart to make way for the next boat even though only part of their cargo had been unloaded. The ports, which under the best of circumstances are too small, are crowded with thousands of empty containers that add to the congestion. The empty containers have helped turn a 45-minute drive from the docks to the port exit into a three-hour drive at Puerto Cabello, Venezuela's most important port in terms of imports. Expotran reports that for every 10 containers that arrive in Venezuelan ports, only 1.5 are shipped out with export cargo as Venezuelan non-oil exports have declined. Expotran estimates 15,000 container loads of imported food products have been sitting on the docks since summer. This is, the company estimates, costing government-owned petroleum company PDVSA, which is now a major food importer, USD 10-12 million per year. Seasonal merchandise is not appearing on shelves and merchants are concerned much of it will not make it in time for Christmas. Empty shelves for seasonal ingredients have led to frequent declarations that the government will step in and guarantee the supply of traditional Christmas foods.

OFFICIAL CORRUPTION OPENS DOOR TO DRUG TRAFFICKERS

¶7. (C) Expotran's Oronoz believes that some Venezuelan governors see the ports as a source of personal income and specifically referred to Luis Acosta Carlez, the governor of the state of Carabobo, home to Puerto Cabello. He also referenced this governor's strong ties to the Makled family (refs A and B). Oronoz said the Makled family, Venezuela's most prominent drug traffickers, control a large portion of Puerto Cabello. Chavez himself said on November 14 that Puerto Cabello should be renationalized as it has "become infested with mafias." (NOTE: The industry is full of

rumors that the year and a half old Venezuelan/Cuban joint port development company, Bolivariana de Puertos S.A., would take over operations if the ports are nationalized. END NOTE.)

¶8. (C) The drug trafficking situation appears to have become worse after the National Guard Anti-Drug Unit instituted a 100 percent cargo inspection policy. The National Guard is just one of the three different government agencies that inspect cargo at separate times, leading sometimes to weeks of delays. (Customs, which also has a 100 percent inspection policy, and tax authority Seniat are the other two agencies.) However, several industry sources report that bribes are the rule rather than the exception and inspections can be avoided altogether for a price.

¶9. (C) A logistics company representative told the VenAmCham committee that her company estimates that its cargo must overcome 60 bureaucratic hurdles before entering the country and the "administrative process is pure chaos" leading to delays of over 15 days for merchandise to officially enter the country. Expotran stated that all of these steps can either be avoided, such as the cargo inspections, or greatly expedited when the right palms are greased. Oronoz said the National Guard frequently assigns the containers an inspection date eight days out. The Guards then calculate how much it would cost the shipper to store the containers for that period of time, and then ask for 50 percent of that amount as a bribe in order to allow the containers to move on immediately without inspection. Oronoz says there are numerous examples of this type of corruption every step of the way from before docking to the merchandise clearing the port.

COMMENT

¶10. (C) The exponential increase in bureaucratic red tape at Venezuelan ports over the last several years has increased delays, significantly raised the cost of importing and exporting, and has led to a myriad of opportunities for

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corruption. While it is too late for merchandise delays to have much of an impact on public opinion prior to the upcoming state and local elections, the average Venezuelan will not be pleased if Christmas cannot clear customs in time.

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